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The Honorable City Council
 of the City of Huntington Beach
 Huntington Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huntington Beach (the City), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the City for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when a design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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Internal Control Over Financial Reporting (Continued)

We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

Notes Receivable:

Auditors' Comment

We noted that the City has several notes receivable balances related to housing programs which were not adjusted to the proper balances. The loans related to the housing program have provisions which allow the forgiveness of the note over a period of time provided the debtor meets requirements of the loan agreements. The City should implement an annual procedure to review all the individual notes receivable balances and adjust these balances to the proper amounts.

Management's Response

The City's Housing Division is working with the City Attorney's Office to finalize the procedures for loan forgiveness. The City has contracted with a financial consultant to perform a financial review of all the individual notes receivable balances to determine if the loan is eligible to be forgiven or if adjustments need to be made to current loan balances. In addition, the City is providing the physical condition review of the projects for compliance and recommendation if a particular loan should be forgiven for that year.

Bank Reconciliations:

Auditors' Comment

During our testing of bank reconciliations, we noted that the reconciliation for the Union Bank General Checking bank account for the month of September 2009 was not properly reconciled until four months later. An important element of internal controls over cash is the reconciliation process to identify differences between the bank and the general ledger and resolve differences timely. When differences are not properly identified, the bank reconciliation is not complete and can result in misappropriation of assets. We recommend that all bank accounts be reconciled within 30 days after the end of the month.

Management's Response

The City will strive to reconcile all bank accounts within 45 days of month end when possible. Management will more closely monitor the process. When bank reconciliation present more challenges, management will dedicate additional resources when necessary.

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City's responses to the significant deficiencies identified in our audit are described above. We did not audit the City's responses and, accordingly, express no opinion on them.

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This report is intended solely for the information and use of the City Council, management, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

Diehl, Evans and Company, LLP